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May 18, 2009

To the Board of Directors of the
City of Newburgh Industrial Development Agency
Newburgh, New York

We were engaged to audit the financial statements of City of Newburgh Industrial Development Agency as of and for the year ended December 31, 2007, however, we were unable to express an opinion on them. As required by auditing standards generally accepted in the United States of America, we considered City of Newburgh Industrial Development Agency's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies numbered 2007-01, 2007-02, and 2007-03 described below to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe all of the significant deficiencies described above are material weaknesses.

2007-01 **Preparing Financial Statements and Disclosures**

Condition: The auditor is currently making adjustments to properly record certain transactions, and preparing the financial statements for external reporting purposes.

Criteria: The auditor cannot function as part of the Agency's internal control system over financial reporting. The auditor's preparation of the financial statements and disclosures would not be reported as a material weakness if the Agency's had internal controls in place to prevent, detect, and correct a potential misstatement in the financial statements or notes.

Cause: Newly revised audit standards state that if the Agency does not implement procedures to prevent, detect, or correct a potential misstatement in the financial statements or notes, this deficiency constitutes a significant deficiency or material weakness in internal control. The Agency relies on the external auditor to prepare the financial statements and related disclosures, and to assist with properly recording certain transactions.

Effect: The financial statements could be significantly misstated.

Recommendation: Although the independent auditor cannot be a part of the Agency's internal control, relying on the auditor to assist with preparation of the Agency's financial statements and help guide management through complex accounting standards is acceptable under current prescribed standards.

2007-02 **Management Oversight and Monitoring**

Condition: The auditor found instances where oversight and monitoring by management were not documented.

Criteria: Effective internal control over financial reporting requires management oversight and monitoring to establish reasonable assurance that financial reporting is being reliably and accurately completed. Documentation of this oversight and monitoring is necessary to insure that this criteria is met.

Cause: These activities are often informal and performed as a part of the overall management of the entity's operations. Management's close involvement in operations will typically identify inaccuracies in financial data.

Effect: The financial statements could be significantly misstated without adequate performance of oversight functions, which should be fully documented.

Recommendation: We recommend that management formally document its review of all elements of the financial data reflected in financial reporting. This would include but not be limited to ledger account reconciliations, journal entries, trial balances, and revenue and expense - budget to actual reports.

2007-03 **Limited Segregation of Duties**

Condition: The auditor found instances where segregation of duties was limited. Limitations in control activities may be addressed through additional management oversight.

Criteria: Segregation of duties relates to how various duties are assigned to different people within the organization. Generally, the responsibility for authorizing transactions, recording transactions, and maintaining custody of assets should be assigned to different people so that no single person is in a position to both perpetrate and conceal errors, irregularities or fraud.

Cause: Limited resources and personnel available contribute directly to the level of segregation achieved. Another factor is the organizational structure and the assignment of responsibilities within that structure.

Effect: The financial statements could be significantly misstated due to errors or irregularities and fraud or misappropriation could occur and not be detected without adequate segregation of duties and responsibilities.

Recommendation: We recommend that management review the responsibilities of the accounting department staff, as well as the duties actually being performed. This review should focus on segregating the functions of authorizing transactions, recording transactions, and maintaining custody of assets. As part of this review, management should consider whether the current staffing level is sufficient to achieve the desired internal control. It may be necessary to hire additional staff.

This communication is intended solely for the information and use of the board of directors, management and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

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— CONSULTANT —
Randy E. Bullis, CPA, DABFA

May 18, 2009

To the Board of Directors
City of Newburgh Industrial Development Agency
83 Broadway
Newburgh, New York 12550

We were engaged to audit financial statements of the City of Newburgh Industrial Development Agency for the year ended December 31, 2007, but were unable to express an opinion on them, as indicated in our report dated May 18, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of City of Newburgh Industrial Development Agency. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Newburgh Industrial Development Agency are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the Organization during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the City of Newburgh Industrial Development Agency that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed an audit adjustment of $374,343 for the recording of an allowance for doubtful accounts in regards to EDA grant receivable. In our judgment, either individually or in the aggregate, this adjustment had a significant effect on the City of Newburgh Industrial Development Agency's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We were unable to review all of the Agency's books and records; consequently, we were unable to form an opinion on the financial statements of the City of Newburgh Industrial Development Agency.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Newburgh Industrial Development Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

Several meetings were scheduled in an attempt to acquire information pertinent to our audit, however, when we showed up no one was there to meet us.

We requested documentation that was needed to complete the audit, however, much of that information was never provided to us.

This information is intended solely for the use of the management of City of Newburgh Industrial Development Agency and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Nugent & Haeussler, P.C.

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